

CITY OF BLAINE
Whatcom County, Washington
January 1, 1991 Through December 31, 1992

Schedule Of Findings

1. The City Should Prepare And Submit Timely And Accurate Annual Financial Reports

The city's 1991 and 1992 annual reports were not prepared and submitted to the Office of State Auditor by the due date of May 30 as required by RCW 43.09.230. A partial annual report for 1991 was received by the Office of State Auditor in September 1992; however, not all statements were completed until July 1993. The 1992 report was not completed until November 1993. In addition, the original financial statements contained numerous errors which required correction.

When the city does not prepare and file accurate financial reports as required by state law, users of the report are denied access to the city's financial information. Users and their concerns include:

- a. The Washington State Legislature, which receives a copy of the annual volume of comparative statistics for all municipalities, published pursuant to RCW 43.09.230.
- b. The general public, which is interested in reports on the cost of public services.
- c. The State Auditor's staff, which finds that the absence of financial reports causes delays in audit work, and accordingly, audit time and costs are significantly increased.
- d. City council members, whose use of the report as a management tool is diminished when the report is not issued timely.

In addition, inaccurate financial statements require additional audit effort and increased audit costs to the city.

The reports were late and inaccurate due to the insufficient allocation of resources to the preparation of the reports because of other priorities.

We again recommend that city officials ensure the timely and accurate preparation and filing of annual reports.

2. The City Should Improve Its Accounting For Fixed Assets

As noted in prior audit reports, the city's controls over fixed assets are inadequate. We noted that the city does not maintain a comprehensive fixed asset detail ledger or take a comprehensive annual physical inventory.

Because of the absence of adequate accounting procedures and controls, the city is not properly safeguarding public fixed assets. Furthermore, the city does not have adequate information to:

- a. Fix responsibility for custody of its assets.
- b. Provide adequate insurance coverage.
- c. Determine proper depreciation expense.
- d. Plan an effective replacement and maintenance program.
- e. Identify fixed assets acquired with federal funds and the final disposition of such property.

The Light Utility Fund uses the Federal Energy Regulatory Commission's (FERC) *Uniform System of Accounts for Public Utilities and Licensees* prescribed by the State Auditor in accordance with RCW 43.09.200. General instruction No. 2(a) in this prescribed system of accounts states that:

Each utility shall keep its book of accounts, and all other books, records, and memoranda which support the entries in such book of accounts as to any item included in any account.

Additionally, for any fixed assets purchased by the city using federal funds, the Office of Management and Budget (OMB) "Common Rule," section .32, [d] Management requirements states in part:

(1) Property records must be maintained that include a description of the property, a serial number or other identification number, the source of property, who holds title, the acquisition date, and cost of the property, percentage of Federal participation in the cost of the property, the location, use and condition of the property, and any ultimate disposition data including the date of disposal and sale price of the property.

(2) A physical inventory of the property must be taken and the results reconciled with the property records at least once every two years.

(3) A control system must be developed to ensure adequate safeguards to prevent loss, damage, or theft of the property. Any loss, damage, or theft should be investigated.

Additionally, generally accepted accounting principles require accounting for fixed assets and related depreciation.

In previous years, city officials were reluctant to allocate the financial resources necessary to establish an adequate system of accounting for its fixed assets. In 1990 the city contracted with an appraisal company to inventory and appraise the utility funds' fixed assets; however, the data obtained from the appraisal was not utilized promptly to update the fixed asset records. The Public Works Department has recently initiated the process of performing a physical inventory of fixed assets and implementing a system to record and track those assets.

Because the city does not account for its fixed assets, there is an increased risk that errors or irregularities may occur and not be detected in a timely manner, if at all. In addition, we were unable to verify the accuracy of fixed assets, accumulated depreciation, and depreciation expense as presented in the financial statements of the light utility.

We again recommend that city officials continue their efforts to establish a fixed asset accounting system and conduct annual physical inventories of fixed assets.

3. The City Should Restrict Fund Expenditures To Authorized Budget And Cash Available

The city made expenditures which exceeded approved budget appropriations in two city funds in 1991 and 1992 as follows:

1991	1987 Library Construction	\$15,630
1992	Street Fund	\$37,009

We also noted that expenditures were made in 1991 in the following funds prior to the council authorizing those expenditures by budget amendment on December 30, 1991:

D.A.R.E.	\$ 2,011
Criminal Justice Funding	3,618
Street Fund	47,117
Traffic Study	297
Light	16,175
Energy Conservation	61,440

In addition, we reviewed the city's accounting records from June 1991 through December 1992 and noted that there were a number of funds which had negative cash balances, as follows:

Street	6/30/91	\$ 689
Water Capital Improvement	6/30/91	193,462
CDBG Sewer Rehabilitation	7/31/91	9,300
Water Capital Improvement	7/31/91	193,462
1990 Water Bond Redemption	7/31/91	98
Street	10/31/91	30,682
Water/Sewer	10/31/91	2,845
Public Works Engineering	1/31/92	14,106
Parks	2/29/92	2,696
Consolidated LID #3	2/29/92	3,589
Marine Drive Reconst. LID	2/29/92	301
Public Works Engineering	2/29/92	16,672
Energy Conservation	3/31/92	1,076
Public Works Engineering	3/31/92	14,348
Public Works Engineering	4/30/92	4,090
Public Works Engineering	5/31/92	1,372
Energy Conservation	6/30/92	6,227
Public Works Engineering	6/30/92	3,281
Public Works Engineering	7/31/92	4,976
Rehabilitation of Well #2	11/30/92	4,640

RCW 35A.33.120 states, in part:

The expenditures as classified and itemized in the final budget shall constitute the city's appropriations for the ensuing fiscal year. Unless otherwise ordered by a court of competent jurisdiction, and subject to further limitations imposed by ordinance of the code city, the expenditure of city funds or the incurring of current liabilities on behalf of the city shall be limited to the following:

(1) The total amount appropriated for each fund in the budget for the current fiscal year . . .

(4) Funds received in excess of estimated revenues during the current fiscal year, when authorized by ordinance amending the original budget; and

(5) Expenditures required for emergencies

In addition, RCW 35A.33.125 states:

Liabilities incurred by any officer or employee of the city in excess of any budget appropriations shall not be a liability of the city. The clerk shall issue no warrant and the city council or other authorized person shall approve no claim for an expenditure in excess of the total amount appropriated for any individual fund, except upon an order of a court of competent jurisdiction or for emergencies as provided in this chapter.

RCW 43.09.210 states, in part:

. . . no department, public improvement, undertaking, institution, or public service industry shall benefit in any financial manner whatever by an appropriation or fund made for the support of another.

Expenditures in excess of budgeted authorizations resulted from the failure of city officials to monitor expenditures in relation to budgeted appropriations and the failure to adopt budget amendments prior to making expenditures in excess of the original budget. In addition, city officials did not ensure that funds making expenditures had sufficient cash before approving the expenditures from those funds.

By incurring expenditures in excess of appropriations, city officials are circumventing the budgetary process, preventing citizen input prior to expenditure, and violating state law. Allowing funds to operate with deficit cash balances constitutes interest-free loans from solvent funds of the city without the proper authorization of the city council.

We recommend the city develop and implement a system of controls which will prevent expenditures in excess of budget authorizations or cash available in that fund. This should include effective budget monitoring and timely budget amendments as well as cash and investment management and interfund loans, if appropriate.

4. The City Should Adhere To Bid Requirements

The city failed to follow competitive bid procedures for the purchase of furnishings in the amount of \$22,918 for the new fire station (Fire Department No. 2). During our special audit of the Public Works Department we noted additional exceptions to bid requirements and the lack of adequate bid policies and procedures. See special audit Report No. 55053 dated August 13, 1993.

RCW 35A.40.210 states, in part:

Procedures for any public work or improvement contracts or purchases for code cities shall be governed by the following statutes, as indicated:

(2) For code cities under twenty thousand population; RCW 35.23.352.

RCW 35.23.352 states, in part:

(6) Any purchase of supplies, material, equipment or services other than professional services, except for public work or improvement, where the cost thereof exceeds seven thousand five hundred dollars shall be made upon call for bids: PROVIDED, That the limitations herein shall not apply to any purchases of materials at auctions conducted by the government of the United States, any agency thereof or by the state of Washington or a political subdivision thereof.

Noncompliance with bid requirements appeared to be the result of the city's failure to establish and implement proper bid policies or procedures, and from unfamiliarity of bid requirements by department personnel.

Without calling for competitive bids, the city is denying the business community the ability to bid for the contracts and cannot assure the public that they are getting the lowest possible price. Without established policies and procedures or proper controls over contracts, the opportunities for error and/or abuse are increased.

We recommend that the city's management implement bid policies and procedures which comply with legal requirements and ensure that those policies and procedures are complied with.

5. Local Improvement District Accounting Should Be Improved

The city does not have control totals for local improvement districts' assessments receivable. Control totals are a necessary part of a receivable system to provide additional assurance that all transactions pertaining to customer accounts have been properly recorded.

The city has not utilized control totals in the past several years due to time constraints, changes in the city's computerized accounting system, and changes in personnel who account for local improvement districts.

Failure to maintain an assessments receivable control total results in a significantly greater risk that errors or irregularities could occur and not be detected in a timely manner. In addition, increased audit costs result from the additional audit effort necessary to review the special assessment transactions.

We recommend:

- a. Control totals be established for local improvement districts' assessments receivable.
- b. Subsidiary receivable ledgers be reconciled to the control account on a periodic basis by someone other than the person handling the local improvement districts' receivables.

6. The City Should Improve Controls Over Payroll

During our review of payroll at the City of Blaine during previous audits and the current audit, we noted that the city has no formal policies or procedures for nonunion personnel (primarily administrative employees) for the accrual and use of vacation, sick, and compensatory time. In addition, we noted several instances in which employees had a negative leave balance, indicating that they had utilized more hours of leave than they had earned.

These weaknesses compromise the city's ability to ensure that payments made for payroll are properly authorized and are for actual work performed.

These conditions are due to the city's failure to establish formal policies and procedures governing nonunion personnel compensation, and standardized time recording procedures.

We recommend the city adopt formal personnel policies and procedures for nonunion personnel governing the accrual and use of vacation, sick, and compensatory time and monitor compliance with those policies.

7. The City Should Improve Cash Reconciliation Procedures

Our review of the city's bank account and cash reconciliation procedures revealed the following weaknesses:

- a. The city's bank account had not been reconciled to the check register or the accounting system since December 1992.
- b. Incomplete reconciliations were performed during 1992 which identified differences between the cash balance of the bank and the city's accounting records without adequately determining the cause and making the appropriate adjustments.
- c. Procedures over the recording and tracking of NSF (nonsufficient funds) checks were not sufficient.
- d. Stale-dated checks had not been written off.

The unresolved differences between the bank account balance and the city's accounting records were largely the result of:

- a. Bank errors which had not been followed up on by city staff.
- b. Discrepancies between city recorded bank deposits and the amount recorded by the bank.
- c. Incorrect recording of NSF check activity. In some cases adjustments had not been made to the city's accounting records for checks returned by the bank or redeposited into the bank and in other cases duplicate entries were made.
- d. Failure to make proper entry in accounting records to reflect transactions which occurred.
- e. Failure to omit a cancelled check from the accounting records.

RCW 43.09.200 states, in part:

The system shall exhibit true accounts and detailed statements of funds collected, received, and expended for account of the public for any purpose whatever, and by all public officers, employees, and other persons.

In addition, the Category 2 *Budgeting, Accounting and Reporting* (BARS) manual, Volume 1, Part 3, Chapter 1, page 24 lists internal control standards which define the minimum level of quality acceptable for internal control systems. Specific Standard No. 6, "Access to and Accountability for Resources," requires a periodic comparison of the asset with the recorded accountability to determine whether the two agree.

Since the purpose of the reconciliation process is to promptly discover any errors or irregularities which may have occurred and to resolve them, the failure of the city to properly perform the procedures exposes city moneys to a high degree of risk. As a result, extraordinary audit time and effort was required to determine that all cash was accounted for.

The city's failure to perform adequate cash reconciliations was in part due to personnel

difficulties and the utilization of time to perform other duties considered higher priority.

We recommend that city officials establish and implement better internal control procedures over the cash and investment accounts. Cash reconciliations should be prepared monthly and the cause of any differences should be noted so proper action to resolve those differences can be taken.

8. The City Should Improve Controls Over Municipal Court Reconciliations

During our audit of the City of Blaine, we noted that moneys held in trust did not agree to the reconciled bank balance as of June 30, 1993. The cash on deposit in the court's bank account was \$1,086.27 in excess of trust moneys. It appears that reconciliations between the bank balance and the trust have not been performed for several years.

A well designed internal accounting control structure includes periodic comparison and reconciliation of actual assets to recorded balances. Without reconciliations, the court cannot adequately safeguard and report its assets. In addition, RCW 43.09.200 states, in part:

The system shall exhibit true accounts and detailed statements of funds collected, received, and expended for account of the public for any purpose whatever, and by all public officers, employees, or other persons.

The court clerk has said that she lacked the time to perform the reconciliations. In addition, bank reconciliations were not being performed timely by the finance department; therefore, she could not rely on the check register balance to perform the reconciliation to the trust balance.

By not balancing the trust balance to the financial records on a monthly basis, the court clerk's ability to prevent and detect errors or irregularities on a timely basis is diminished.

We recommend that the court clerk's office reconcile the trust account to the reconciled check register balance on a monthly basis.

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Schedule Of Federal Findings

1. The City Should Ensure That Weatherization Measures Billed To Bonneville Power Administration Are Eligible, Installed, And Inspected In Accordance With Terms Of The Grant Agreement

The city received funding in 1991 and 1992 from Bonneville Power Administration (BPA) for the Weatherwise Program, a program in which city electrical customers receive weatherization measures for their homes. BPA performed a Weatherwise Program Quality Assistance Review of the program in August 1993 for the period July 1992 through June 1993. BPA's sample inspection of 18 homes during this period disclosed 8 health and safety errors, 22 general errors, and 9 financial errors. Fourteen of the 18 residences reviewed require corrective measures. The review found that the City of Blaine had billed BPA for homes that were never inspected and for ineligible weatherization measures. In addition, the review found that for the previous review period (October 1991 through June 1992) a health and safety error which had been noted during that review period and which had been reported to BPA as having been corrected was, upon reinspection by BPA, found not to have been corrected.

The city is required to inspect homes that are weatherized to ensure compliance to BPA specifications before billing BPA. Section 13(f) of the contract between BPA and the City of Blaine states that the city:

. . . shall submit these claims after completing an inspection checklist and determining that each Residence or Mobile Home has been weatherized in a Workmanlike manner.

OMB Circular A-87, *Cost Principles for State and Local Governments* establishes principles and standards for determining costs applicable to grants. Circular A-87, Section C (1) states, in part:

To be allowable under a grant program, costs must . . . be necessary and reasonable for proper and efficient administration of the grant programs.

Circular A-87, Section C (2) states, in part:

A cost is allocable to a particular cost objective to the extent of benefits received by such objective.

In addition, RCW 43.09.200 states, in part:

The system shall exhibit true accounts and detailed statements of funds collected, received, and expended for account of the public for any purpose whatever, and by all public officers, employees, or other persons.

The accounts shall show the receipt, use, and disposition of all public property, and the income, if any, derived therefrom; all sources of public income, and the amounts due and received from each source; all receipts, vouchers, and other documents kept, or required to be kept, necessary to isolate and prove the validity of every transaction

During the period of May 1991 through December 1992, the city contracted with Farwest Energy Management, Inc., to administer the Weatherwise Program. The contractor signed and dated inspection forms in customer files stating that he had inspected the installation jobs and that the work met BPA specifications. However, the conclusion of the BPA reviewer was that, based on the high percentage of errors found and conversations with customers, it was evident that the work was never properly inspected. The city no longer contracts with Farwest Energy. It appears that insufficient program oversight of the contractor by city management attributed to these occurrences.

The failure of the city to ensure proper installation of weatherization measures billed to BPA could compromise the safety of the customers and lessen the energy savings which should result from the Weatherwise Program. In addition, it could jeopardize past and future funding of the program. Due to the serious and extensive problems noted, the full amount of costs reimbursed by BPA for the Weatherwise Program for 1991 and 1992 must be considered questioned costs until they are fully resolved with the grantor. These costs total \$335,921.

The City of Blaine has been instructed by BPA to reinspect all of the work completed during the review period of July 1992 through June 1993. They must also reinspect a minimum of ten homes from the previous review period of October 1991 through June 1992 to determine if a significant problem exists in those homes and to report the findings to BPA. The city is in the process of developing an action plan to fulfill these requirements.

We recommend that the city proceed with development and implementation of an action plan to resolve the issues to BPA's satisfaction. We also recommend that the city ensure that procedures are in place to adequately monitor compliance to terms of this and other grant agreements.

2. The City Should Comply With All Requirements Of Federal Awards

The city received funding from Bonneville Power Administration (BPA) for a Weatherization program. We noted a number of instances in which the city had not obtained and/or retained the documentation for the homeowner as required by the grant agreement:

- a. Two of the eleven files which we reviewed did not contain Quick Audit Checklists.
- b. None of the nine checklists which we reviewed were signed by the person performing the audit.
- c. Of the five files which we selected for further review, we noted the following exceptions:
 - (1) In one instance no documentation existed indicating whether a residence was over 45 years old.
 - (2) Two of five files reviewed did not contain a 12-month record of electrical power usage prior to weatherization.
 - (3) None of the five files reviewed contained documentation of electrical power usage twelve months subsequent to weatherization.
 - (4) One of five files tested did not contain acknowledgment of receipt of the Indoor Air Quality and radon testing.

In addition, in our review of two of the eleven reimbursement requests submitted to the grantor, we noted one instance in which a customer qualified as and participated as a low-income customer; however, when reported to BPA was reported as a non low-income customer. This had no effect on the amount reimbursed by BPA to the city.

Section 13, page 11 of the grant agreement states:

(a) Upon request by the Homeowner or Homeowner Designee, the Contractor shall conduct an Audit of the Building or Mobile Home in accordance with procedures contained in Exhibit X to this Agreement. Following completion of the Audit, the Residence or Mobile Home shall remain eligible for weatherization under this Agreement until all eligible Measures are installed.

The grant agreement, under "Program Records" states that:

The Contractor shall maintain a record of the following information regarding its transactions . . .

(a) Record of the date of performance of and the data obtained from the Quick Audit;

(c) state "yes" or "no", the Building is 45 years of age or older . . .

(g) the Electric Power consumption during the 12-month period preceding the Quick Audit for each Residence, except for those Residences served by a master meter which shall be noted;

(h) Electric Power consumption for the 12-month period following inspection of the Residence, except for those Residences served by a master meter which shall be noted

(l) Homeowner's or Homeowner Designee's written acknowledgment of receipt of the Indoor Quality information and radon detector request card

The exceptions which we noted to the requirements of the city's grant agreement with BPA were apparently an oversight by the company previously contracted to administer the grant. We consider these exceptions to be immaterial compliance exceptions; however, failure to comply with terms of the grant agreement increase the chances that the grant funds will not be utilized in accordance with the purpose of the grant and could jeopardize future funding.

We recommend that the city ensure that grant administrators are familiar with terms of grant agreements and comply with those requirements. In addition, we recommend that the city correspond with BPA officials to determine any action which might be required in regards to the exceptions which were noted.